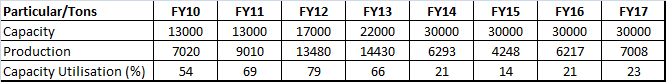
**Steelcast Ltd (CMP Rs 100, Market Cap Rs 202 cr)**

**Company Brief**

The company manufactures steel casting products by adopting sand based manufacturing process by using No Bake and Shell Molding techniques. The annual production capacity is 30,000 MT. The manufacturing set up of the company comprises of 3 plants termed as P1, P2 and P5. For many years the company produced casting for OEMs in the Mining industry. It had several products designed and developed as per the requirements of the customers. The company utilizes its 3 plants according to the nature and description of the items to be produced with respect to its weightage and dimensions.

**Big Capacity Expansion**

In 2011, company entered into agreement with Caterpillar, which agreed to procure castings of 4800 tons in 2011, reaching upto 10000 tons in 2015. CAT provided interest free loan of Rs 22.5cr which had to be repaid in form of 5% of sales value over period of time. Company went for aggressive capacity addition from 13000tons in FY11 to 30000 tons in FY14.



**Capacity Expansion and Troubles**

With expansion, total Debt went up from Rs 40cr in FY10 to Rs 150cr in FY14 (which included Rs 22cr interest free loan from CAT). However, demand fell for end user and capacity utilization went to as low as 14% in FY15. This was first time (data checked since FY05) that company incurred EBIDTA loss. However, company avoided default through fund infusion at Rs 60/share (Rs 12cr). Company was largely relying on capex oriented demand which fell along with general slowdown in mining segment. Stretched balance sheet didn't help the matters.

***What went wrong ?***

1) Aggressive capex with debt (though part of it was funded by client)

2) Over reliance on mining sector and that too capex driven demand. Mining accounted for 90% of revenue in FY13.

**Turnaround and Improving Balance sheet**

1) Capacity utilization is improving as we can see from the above table (though it's been bit slow since last 2 years). Currently capacity utilization is close to 33% (10000 tons). What used to be few weeks visibility in terms of order book is now couple of quarters. Current order book stands at Rs 89 cr.

2) Company has repaid Rs 25cr debt in FY17. Total stands at close to Rs 100cr currently with Long Term Debt down to Rs 22cr (from 70cr in FY14). Even with low utilization, Steelcast has been able to pare down debt.

3) Mining segment contribution is down to 70% from 90% in FY13 and same is expected to go down to 40% over next 2-3 years. Number of Products has increased from 100 in FY13 to 300+ currently. There also has been new clients addition. One client can be as big as CAT, JCB over next 2-3 years.

4) Replacement demand which used to be nil is now 10% and company expects same will be 30% over next 2-3 years.

5) Company is one of the few companies in India with Forging and Machining division in the country and same is helping it to penetrate defence sector. It can be a decent contributor going ahead.

6) Domestic mining sector is yet to pick up and activity is largely happening in Defence sector. Globally mining sector is seeing good uptick. Demand is being largely driven by global orders. Caterpillar globally has been giving positive commentary recently (stock has recently touched all time high)

**Outlook and Valuations**

1) Steelcast Ltd is good play on operating and financial leverage. At 23% utilization, it did EBIDTA of 18%. With ramp in production, EBIDTA can move to 20%+. This coupled with repayment of debt, provides good financial deleverage play as well.

2) Company can do topline of Rs 200cr+ in FY18 (vs Rs 134cr in FY17). In Q1 FY18, Steelcast did topline of Rs 49cr with close to 19% EBIDTA. Usually Q1 is relatively weaker, hence top line of Rs 200cr+ looks very much achievable.

3) At EV of Rs 300cr, it is trading at 7.5x EV/E on FY18. Given that FY18 will be close to 33% utilization, probability of same improving over next 1-2 year looks high (given long down cycle since FY13).